

4/11/77 [1]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 4/11/77
[1]; Container 14

To See Complete Finding Aid:

http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Stu Eizenstat to The President Re: Econometric models (6 pp.) / attached to memo from Rick Hutcheson to Stu Eizenstat <i>OPENED 1/18/13</i> <i>SANITIZED</i>	4/8/77	A
memo w/attach	From Stu Eizenstat to The President Re: cables from Robert Strauss (5 pp.) / attached to memo from Rick Hutcheson to Jim Schlesinger <i>OPENED 1/18/13</i>	4/8/77	A

FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec., Pres.
 Handwriting File 4/11/77 [1] Box 17

RESTRICTION CODES

- (A) Closed by Executive Order 12356 governing access to national security information.
- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

Revised:
4/11/77
1:45 p.m.

THE PRESIDENT'S SCHEDULE

Monday - April 11, 1977

8:00 Dr. Zbigniew Brzezinski - The Oval Office.

8:15 Mr. Frank Moore - The Oval Office.

8:30 Senior Staff Meeting - The Roosevelt Room.

9:00 Meeting of the Cabinet. (Mr. Jack Watson).
(2 hrs.) The Cabinet Room.

11:15 Secretaries Joseph A. Califano and Ray
(45 min.) Marshall et al. (Mr. Jack Watson) - The Oval Office.

Welfare reform -

12:30 Lunch with Vice President Walter F. Mondale.
The Oval Office.

Go to stimulus?

2:30 Dr. James Schlesinger - The Oval Office.

Energy policy

**Electrostatic Copy Made
for Preservation Purposes**

Energy

4-11

THE WHITE HOUSE
WASHINGTON

Autos -

Payroll tax →

Auto - trust -

utility rate structure

peak load - life time

Cogeneration

data base

nuclear waste

" safety

energy growth / econ growth

water conservation

time & goals

air pollution

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

Zaire - Nigeria / Mor / Z / Eg

Arms Xfers

Horn of Africa

Soviet trawlers

David Owens

Govt source

Redwood

Raw materials capacity

Africa

Arms Xfers

European

SALT

Human rights - Congress

Great Britain racism

Under aliens

Schedule -

PL 480

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

Floods - worst since '72
cost - \$500 mil

Overloading Corp committees
Handicapped - demonstration

Color TV
Show

Consultants

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

Cabinet

4-11-77

~~Strong~~

Held line on budget

~~268~~

~~Federal Regional Councils~~ abolish

fed Regs. author sign

~~LEAD - abolish?~~

Renegotiation Board. Minish
Bill

TAS speech
(Shipbuilding claims)

Postmaster General

Cabinet re Energy (PR)

Anti Inflation

Energy

Welfare

Sadat

Rebate

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Jack Watson -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Memos to the President

THE WHITE HOUSE
WASHINGTON

cc Adams
[copy of note to Jack for Jack only]

ACTION	FYI
<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input checked="" type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE WHITE HOUSE
WASHINGTON

4-10-77

To Jack Watson

Please do not write
on my incoming
mail - Attach memos -

J

Electrostatic Copy Made
for Preservation Purposes



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

April 5, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: The President

In your note to me on March 21, 1977, you indicated that you suspect many rapid transit systems to be grossly oversized and suggested that we should press for off-street parking, bus lanes, and surface rail and bus lines as preferable alternatives.

I certainly agree that consideration of alternative solutions should be a necessary pre-condition of Federal assistance, without prejudicing consideration of any particular mode in its applicability to a particular city's needs. While some of the transit proposals of the 1960's and early 1970's were based on overly optimistic forecasts and questionable planning assumptions, this has changed to a great extent. For the past two years, the Department of Transportation has required:

(1) Local transit authorities to conduct an analysis of all reasonable transit alternatives, including improved bus service, light rail transit and people movers. This policy is aimed not only at tailoring the system to meet demand, but at savings in implementation through cost-sensitive design.

(2) New rail systems to be planned and built in self-contained segments which must stand on their own merits and be capable of effective operation.

(3) Localities to practice what is known as Transportation Systems Management, i.e., improvement of all transit services through more efficient system operation and measures such as the ones you suggest.

(4) UMTA to negotiate contracts which limit the Federal contribution to a fixed ceiling that can be increased only for abnormal inflation. Local communities must absorb any cost increases arising from design changes or ineffective management. In the case of Atlanta, the funding ceiling has been instrumental in keeping the construction contracts as much as 17 percent below cost estimates.

Electrostatic Copy Made
for Preservation Purposes

cc: Brock:
Are minimum re-
quirements
of off-street
parking, one-
way streets, etc
a prerequisite for
grant
approval?
J

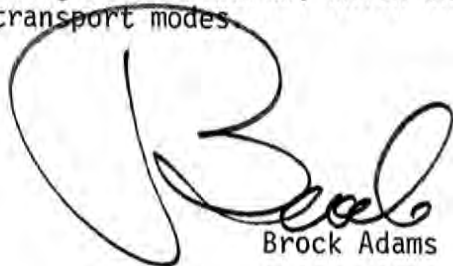
Please transmit
to the President
for

Final project decisions are based on these requirements and the findings as to the system which is most cost-effective in providing transportation services as well as meeting goals for urban revitalization, environmental improvement and energy conservation. This decision is made with no bias for or against any particular mode. I have endorsed and will continue to support these planning requirements, which should result in transportation investments that will meet the future mobility and development needs of our cities.


I am also concerned about the rapid increase in transit operating costs over the last few years. This escalation has had its impact on planning at both the Federal and local level. To gain control over this problem, I am insisting that local transportation planning include realistic estimates of operating costs including ridership projections and ways these costs can be met through a combination of fares and stable sources of financing for operating deficits. In the long run, this emphasis on local financing responsibility will prevent undue pressure on Federal funds as a primary source of operating subsidies.

I have proposed that we shift UMTA funding to a rational combination of five year authorizations, two year advance appropriation and annual appropriation review. This will enable us to develop total program plans for each segment of a major future system we approve, including explicit decisions as to how we will fund these projects each fiscal year within the total annual resource available. This will avoid the rush on fixed available sums that occurred under the past contract authority system.

I will be seeking to apply these same management approaches to major highway projects where the costs of construction and maintenance and operation are rising as steeply as in mass transit. This may require some restructuring of our highway program and some new relationships between Federal and state governments, but the improvements are too great to be ignored. Aggressive implementation of these approaches, both for transit and highway projects may impact heavily on local plans for specific projects. I am pleased to have your understanding and support in pursuing these efforts, which should result in sound planning for all urban transport modes.



Brock Adams



THE WHITE HOUSE
WASHINGTON
April 8, 1977

The Vice President
Stu Eizenstat
Jody Powell

The attached is forwarded to you
for your information.

Rick Hutcheson

Re: Transit Systems

THE WHITE HOUSE
WASHINGTON

C. C.
Schlaeger

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Jim Schlesinger

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Weekly Activities Report
re: Energy Research &
Development Administration

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

April 8, 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM SCHLESINGER
SUBJECT: Weekly Activities Report

Department of Energy

- Draft of comprehensive energy plan is being revised and will be ready on April 11th. You have a copy of the previous draft;
- We are working closely with OMB, Domestic Council, CEA, Treasury etc. in preparing a totally integrated energy policy. An option paper for you on alternative ways to tax gasoline is being prepared;
- Draft legislation necessary to implement proposed energy plan will be completed by April 12th;
- Markup of S. 826 tentatively scheduled to begin in late April and markup of HR. 4623 anticipated for late April or early May;
- Consulted with Congressional leaders and numerous Members of both Houses on long-term energy plan.

Public Participation in Energy Plan

- Written comments, recommendations and suggestions from the public submitted for possible inclusion in your energy plan have reached 27,000 -- final report summarizing the responses will be completed by April 11th.

Electrostatic Copy Made
for Preservation Purposes

Energy Research and Development Administration

- ° Multinational management plan for the design, construction and operation of two 500 kW pilot systems to be built in Spain at a cost of \$30 million is being developed by an International Energy Agency working party. West Germany has the lead for the project design with the United States as deputy.

Federal Energy Administration

- ° Final report of the Joint Federal Power Commission/Federal Energy Administration study on the impacts of the Western drought on Regional electricity generation was published;
- ° Weeks Island salt mine in the New Iberia Parish (Louisiana) was selected as the fourth storage site for the Strategic Petroleum Reserve.

THE WHITE HOUSE
WASHINGTON

4-10-77

To Billy Wilson

The Armon Cheek painting
of me & The Appaloosa is
beautiful. Since I can't
take gift, I've suggested
to my son Jack that it
be hung in the Calhoun
Nat. Bank & later go into
a Carter library. If you
& Mr. Cheek have no object-
ion, we'll do this.

Thank you -

Jimmy Carter

cc: Jack Carter

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Marj Wicklein

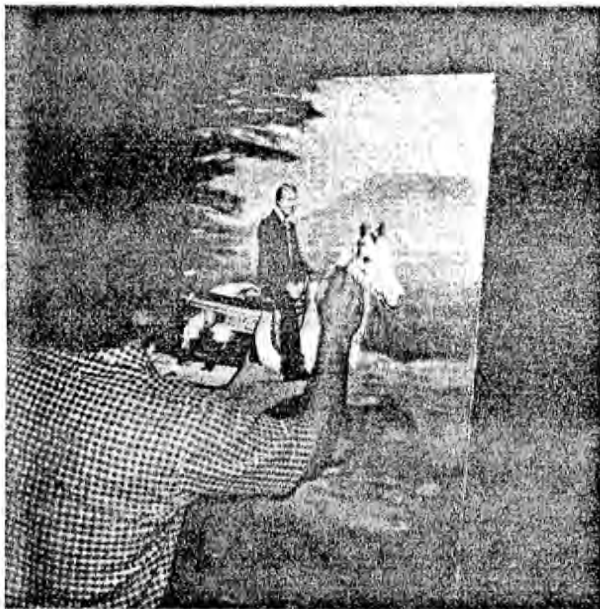
As discussed, here is a copy of
the entire file on the Armon Cheek
painting.

Trudy Fry

IN THE SPRING OF 1975 WHEN "JIMMY WHO" WAS MAKING AN "IMPOSSIBLE BID" TO BECOME PRESIDENT OF THE UNITED STATES, HE WAS BUILDING HIS BASE BY KEEPING IN TOUCH WITH THE "DOWN TO EARTH" PEOPLE HE HAD MET OVER THE YEARS. HE SPENT THE NIGHT AND APPEARED WITH THE COMMON PEOPLE. THE CASE IN POINT WAS HIS WILLINGNESS TO RIDE AN APPALOOSA HORSE TO HELP A FRIEND. THUS CAME THE PICTURE AND PAINTING "FROM CHIEF TO CHIEF". DURING MR. CARTER'S VISIT HE WAS CONFINED TO ROUTINE DRESS CLOTHES, BUT BILLY S. WILSON AND ARTIST, ARMON CHEEK CHOSE TO ASSOCIATE HIM WITH NATURE AND THE OUTDOOR CASUAL CLOTHES HE AND THE AMERICAN PEOPLE WHOM HE SERVES LOVE SO WELL.

"FROM CHIEF TO CHIEF"

CHIEF JOSEPH OF THE NEZ PERCE INDIAN TRIBE WAS ONE OF THE LAST OF MANY CHIEFS WHO PRAISED THE APPALOOSA HORSE FOR STAMINA, LOYALTY, AND WINNING DESIRE. ARMON CHEEK, ARTIST, THINKS IT IRONIC THAT OUR PRESENT-DAY CHIEF, JIMMY CARTER, CHOSE TO MOUNT JOKER'S BAMBI (APPALOOSA STALLION) WHILE ENROUTE TO BECOME AMERICA'S BICENTENNIAL PRESIDENT. BILLY S. WILSON, OWNER OF JOKER'S BAMBI AND AN ACQUAINTANCE OF CHIEF CARTER, COLLABORATED WITH MR. CHEEK IN DECIDING THE SETTING FOR THE PAINTING. IN THE BACKGROUND IS HISTORIC LOOKOUT MOUNTAIN (TENNESSEE AND GEORGIA) WHERE MR. CARTER SPENT THE NIGHT WITH FRIENDS. THIS AREA WAS THE HOME OF THE CHICKAMAUGA INDIAN (A BRANCH OF THE CHEROKEE). ALSO, UNION AND CONFEDERATE FORCES FOUGHT "THE BATTLE ABOVE THE CLOUDS" HERE ON NOV. 24, 1863. AFTER MR. CARTER'S NIGHT ON LOOKOUT MOUNTAIN, HE PASSED TENNESSEE RIVER'S FAMOUS "MOCCASIN BEND" LOCATED AT THE TOE OF LOOKOUT MTN. HERE HE WAS INTRODUCED TO AND THEN MOUNTED JOKER'S BAMBI, THUS SETTING THE STAGE FOR THE PAINTING "FROM CHIEF TO CHIEF".



ARMON CHEEK

Artist

Armon Cheek's interest in art began in his childhood. Inspired by Walt Disney illustrations, he often designed his own cartoon stories with Disney characters. He grew up in scenic Chattanooga, Tennessee.

Armon's increased exposure to nature and humanity led to the desire to draw realistically as he grew into his teens. He has a special interest in capturing human expression, and from his youth thought this was his ultimate challenge.

Son of the late Armon J. Cheek, Sr., a minister and radio announcer from Cannon, Georgia, Armon felt strongly motivated to choose a form of human expression as a vocation. His father was a talented public speaker and writer, and his mother was an accomplished music composer.

Frequently sketching the face of a friend or relative, Armon soon chose to specialize in portraiture. Having studied with Gordon Wetmore in Atlanta and Chattanooga workshop, Michael Taylor of Signal Mountain, Tennessee and Sally Langford, Chattanooga, he continued with research and practice, until he was ready to move into portraiture as a profession. He has attained a level of agility as he paints still life and landscapes as well, and works in several medias to include oils, pastels, charcoal, pen and ink, and graphite.

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Marjorie Wicklein

The attached album of congratulatory messages is forwarded to you with the request that it be sent to Archives for courtesy storage.

Rick Hutcheson

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

16

INFORMATION

April 10, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

DAVID AARON ~~DA~~

*Susan
File
(Archives)
J*

As you may recall, we have undertaken to prepare and forward to you an album of congratulatory messages from leaders on your inauguration and your responses. It is attached.

Attachment

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Bert Lance -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson

Re: Renegotiation Bill

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
	<input checked="" type="checkbox"/>	EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
		MOORE	Carp/Huron within
		POWELL	48 hours; due to
	<input checked="" type="checkbox"/>	WATSON	Staff Secretary
			next day

	FOR STAFFING
	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON		KRAFT
	BOURNE	<input checked="" type="checkbox"/>	LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS		SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN.

APR 4 1977

Honorable Paul Tribble
House of Representatives
Washington, D. C. 20515

Dear Congressman Tribble:

The President has asked that I respond to your letter of March 7, 1977, in which you and your colleagues express concerns over the extension of the Renegotiation Act of 1951 and the need for a review of the present renegotiation process and possible revisions of that process. *To Bert Lance - I promised to support a strengthened Renegotiation bill - basically the Minish bill - Please let me have your staff's assessment.*

J.C.

With respect to your request for the Administration's endorsement of a simple extension of the act, I am pleased to inform you that the Renegotiation Board has been advised that the Administration would have no objection to the submission to the Congress of draft legislation proposing such an extension. *cc: Stu*

As you suggest in your letter, we all have had an interest in the renegotiation process and understand the importance of insuring that the renegotiation process is appropriate and operated efficiently. The Administration supports the position that the renegotiation process should be reviewed before any substantive revisions to the Renegotiation Act of 1951 are contemplated. In considering any proposed changes to the renegotiation process we will certainly take your views into consideration.

Thank you for providing us with your thoughts on this matter.

Sincerely,

Bert Lance
Bert Lance
Director

Electrostatic Copy Made
for Preservation Purposes



GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
WASHINGTON, D. C. 20301

April 1, 1977 ←

Honorable Bert Lance
Director, Office of Management
and Budget
Washington, D. C. 20503

Dear Mr. Lance:

This is in response to your request for our views on H. R. 4082, which would extend and amend the Renegotiation Act of 1951.

The proposed Bill would, inter alia, make the Renegotiation Act permanent legislation (section 2), revise the organization and administrative structures of the Board (sections 3 and 9), change the procedures for renegotiation (section 4), eliminate exemptions for certain contracts and require the furnishing of cost and pricing data with respect to exempt articles (section 5), increase the minimum amount subject to renegotiation (section 6), impose penalties for failure to file required information or for filing false or misleading information (section 7), empower the Board to issue subpoenas (section 10), and require the Board to audit financial statements filed by contractors (section 10). We are opposed to sections 2, 4, 5, and 10 of the Bill.

Section 2(a) of the Bill removes the termination date from the Act thereby making the Board and the renegotiation process permanent. We oppose granting permanent status to the Renegotiation Act because it would negate the very appropriate oversight role of Congress to make periodic examinations as to whether there is a need for continuation of the Act. We favor, instead, a one year extension of the Act to provide time for a study to be made of the costs and benefits of the renegotiation process. We question whether the after-tax excess profits recovered under the Act are sufficient to justify the expense incurred by the Board and the executive and judicial branches of the Government for administration of the Act and the expense incurred for compliance by contractors, which expense is passed along to the Government in the form of allowable overhead costs under its contracts. The recent level of relatively high excess profit determinations reflects the Board's actions on a backlog of contracts that were performed during the Viet Nam era. We would expect the level of excess profits to be

experienced on later awarded contracts to be closer to the lower level that existed prior to the Viet Nam era. The provisions of H. R. 4082 would significantly increase the compliance costs of defense contractors without an ascertainable increase in the level of excess profit determinations.

Section 4(b) of the Bill would change the method of renegotiation in two significant respects:


a. Under existing law, in the case of a contract which requires more than one year to complete, a contractor is permitted to estimate the percentage of the contract which he completed each year and to account, on that basis, for the profit (or loss) earned on that contract in that year. The Bill would prohibit the use of the percentage of completion method of accounting for profit on these contracts. We are strongly opposed to this prohibition. The percentage of completion method is a generally accepted accounting practice, used by many defense contractors and accepted by the Internal Revenue Service and the Securities and Exchange Commission. Prohibiting its use for renegotiation will result in many contractors having to institute new accounting procedures solely for renegotiation purposes and thereby increase government procurement cost. If this prohibition were enacted, reported profitability for renegotiation purposes could be severely distorted from year to year and might bear no relationship to profitability reported to and accepted by the Internal Revenue Service and the Securities and Exchange Commission. The prohibition is not needed in order to preclude contractors from manipulating cost and profit figures through use of the percentage of completion method of accounting, because, under existing law, the Board has authority to impose accounting changes where necessary to correct the kinds of variations in profit rates that would otherwise result in the kinds of abuses which this proposed provision is designed to correct.

b. The Act presently provides for review of the total aggregate renegotiable sales of a contractor by fiscal year to determine whether an excessive profit has been made. The Bill would change the Act by requiring contractors and the Board to renegotiate profits by division and by major product line within a division. We are strongly opposed to this change for a number of reasons. In the first instance, the change could require many contractors to either revise or establish accounting systems to meet this reporting requirement. One major expense which would be entailed in such compliance would be the establishment of allocations of total assets and net worth at the major product line level.

Implementation of this change by contractors could result in significant additional costs being passed along to the Government as allowable costs. There is also the major--and basic--problem of identifying what constitutes a division or product line. There is no universal set of characteristics established to determine for financial accounting and reporting purposes the industry segments of all businesses. Most fundamentally, a requirement upon the Board to renegotiate by division and by major product line within a division is inequitable because it permits the Government to recapture excessive profits on individual product lines while ignoring losses or low profits on other product lines. Defense contractors with several product lines could be significantly penalized if they were not allowed to balance their profits between product lines and divisions. In our opinion, by narrowing to the level of division or product line the area in which a contractor can balance losses or low profits against more profitable business, contractors will be motivated away from fixed price type contracts because the contractors will foresee losing the higher profits through a renegotiation process which does not permit them the opportunity to offset such profits with losses or lower profits in other divisions or product lines.

Section 5(b)(5) of the Bill would require contractors to furnish complete cost and pricing data on all articles subject to exemption. We are concerned that this provision might be interpreted by the Board as a requirement to obtain cost or pricing data of the depth and magnitude provided for in P. L. 87-653. We believe that the satisfactory accomplishment of the study and investigation provided for in section 5(e) of the Bill in respect to the mandatory exemptions for standard commercial articles does not require the collection of data as extensive as required by P. L. 87-653.

Section 5 of the Bill would revise a number of provisions of section 106 of the Act (50 U.S.C. App. 1216) relating to exemptions. The present exemptions for standard commercial services (section 106(e)(1)(B)) and articles in a standard commercial class of articles (section 106(c)(2)) would be deleted and the percentage of articles that must be sold through the free market competitive system in order for an item to qualify as a standard commercial article would be increased from the present 55 percent to 75 percent (section 106(c)(4)(B)(iii)). We oppose the enactment of these revisions. We have seen no evidence that there are any significant amounts of excessive profits escaping renegotiation through

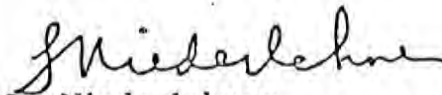


the present provisions defining this exemption. This exemption is soundly based on the fact that the commercial market is adequate to insure fair and reasonable prices. To our knowledge there is no indication that this basic premise is now faulty. Even the General Accounting Office (GAO) in its very thorough report on the Board in 1973 did not recommend repeal of this exemption but only suggested that the Board obtain profit and cost data to analyze the matter. In our opinion, this amendment would create considerable administrative burden, further aggravate the complexity of doing business with the Government, and be of little economic benefit to the Government in terms of recapturing excessive profits. We believe that consideration of any changes in these provisions should be deferred until completion and transmittal to the Congress of the results of the study and investigation proposed in section 5(e) of the Bill. Presumably these results will be sufficiently comprehensive to permit an understanding as to the need for such revisions and the results of their enactment.

Section 10(a) of the Bill would provide the Board with subpoena power. We believe that the imposition of civil penalties for late filing and for failure to file information contained in section 7(a)(3) should assist materially in correcting any problems the Board has in obtaining required data from contractors and could obviate the need for subpoena authority.

Section 10(b) of the Bill would require that every financial statement filed by a contractor with the Board be verified by an audit performed by the Board. We are opposed to this unnecessary and expensive requirement. The Board presently has the authority to require an audit when it so deems necessary. We, therefore, see no need to make such audits mandatory.

In connection with our review, we noted an error in the headline of the proposed new paragraph (5) of section 106(e). We believe that the reference intended was to "Pricing"--rather than "Profitable"--data.


L. Niederlehner
Acting General Counsel

8 April 1977

RENEGOTIATION

- The Renegotiation Board was established by Congress to insure that excessive profits on defense contracts were returned to the U.S. Treasury. It has not been effective:
 - Over the years Congress incorporated loopholes in the Renegotiation Act.
 - Past Administrations nominated political hacks to the Board and cut the Board staff to less than 200 people.
- The House and Senate Banking Committees now have legislative jurisdiction for the Renegotiation Act. They are expected to support the Minish Bill (H.R. 4082), a strong Renegotiation Act reform measure which the House passed last session but which the Senate did not have time to act upon. The Minish bill would eliminate many loopholes. At the behest of defense contractors, the Ford Administration opposed these reforms.
- Earlier this week several Republicans were able to delay temporarily a full committee vote on the Minish bill which has already been endorsed by the subcommittee. Defense industry lobbyists wanted more time to solicit opposition to the bill. For the past ten years, defense industry lobbyists have successfully fought off attempts to strengthen the renegotiation process by advocating simple extensions of the existing Act "to permit time for further study."
- I now understand that OMB has prepared a letter objecting to all key provisions of the Minish bill--the same position taken by OMB and defense contractor lobbyists in prior Administrations. The Department of Defense has also written a letter opposing the bill.
- At the request of the Renegotiation Board, OMB has agreed to refrain from issuing the letter. However, Republican members of Congress have already received an OMB letter which endorses a simple extension of the Renegotiation Act and states that the Administration would not support any major change to the Act without further study. Thus at the same time you are pledged to cut waste in defense spending, your people are blocking efforts to eliminate excessive profits.

**Electrostatic Copy Made
for Preservation Purposes**

not sent to OMB

- You appointed three good, Government-oriented men to the Renegotiation Board. Two vacancies remain. All three support the Minish Bill. There is no use appointing good people to the Board if the Administration is not going to support the Board and Congressional efforts at reform.
- If this Administration wants economy and integrity in Government contracting, I recommend that you make known publicly your support for a strong Renegotiation Board and for the Minish bill.

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Jody Powell -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Claudia Townsend

THE WHITE HOUSE
WASHINGTON

cc Claudia
Townsend

ACTION	FYI
<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input checked="" type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

Mr. President -

4/10/77

C,

A collection of some
of the better cartoons
of the past week from
Claudia Townsend in News
Summary - We can get
reprints of any you wish to
keep if you'll just initial the
ones you want.

Jody - Let
Claudia Submit each week -
Thanks
J

Mr. President -

4/11/77

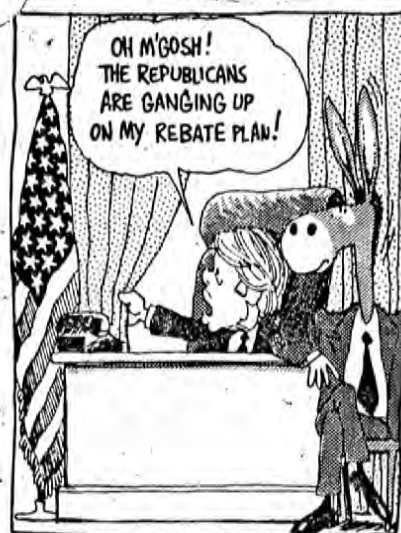
C,

A collection of some
of the better cartoons
of the past week from
Claudia Townsend in News
Summary - We can get
reprints of any you wish to
keep if you'll just initial the
ones you want.

Today - Let
Claudia Submit each week -
Thanks
J



Rocky 1975



Electrostatic Copy Made for Preservation Purposes

AKRON BEACON-JOURNAL
CHUCK AYERS

JOHN FISCHETTI

Fischetti

© 1977 CHICAGO ONLY ABOUT



"Maude! I've got Billy! Bring th' beer can over so he can autograph it"

GRIN & BEAR IT



"You're taking away our privileges? ... Are we being punished, or is this a Carter economy move?"

Electrostatic Copy Made
for Preservation Purposes



Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

Mr. President:

Attached is a breakdown of items in your outbox last week.

You averaged about 20 substantive memos a day, with an average total of about 125 pages.

(The number of pages is slightly exaggerated, as it includes Mr. Dunn's 50-page memorandum, several copies of the OMB/reorganization blue and green pamphlets, and numerous pages of back-up for disaster relief decisions.)

You also averaged about 10 signature items (nominations, military promotions) a day, and about 4 miscellaneous items (copies of your schedule, etc.).

--Rick

4/1/78

THE PRESIDENT HAS SEEN.

ANALYSIS OF PRESIDENTIAL MAIL FOR
WEEK OF APRIL 4, 1977

	<u>Decisions</u>		<u>Information</u>		<u>Signatures</u>		<u>Miscellaneous</u>		<u>TOTAL</u>	
	Items	Pages	Items	Pages	Items	Pages	Items	Pages	Items	Pages
Monday, April 4, 1977	5	51	7	38	1	3	1	8	14	100
Tuesday, April 5, 1977	4	22	19	138	13	44	7	12	43	216
Wednesday, April 6, 1977	12	83	11	42	16	54	5	6	44	185
Thursday, April 7, 1977	11	126	15	69	14	54	6	19	46	268
Friday, April 8, 1977	<u>6</u>	<u>16</u>	<u>8</u>	<u>35</u>	<u>4</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>61</u>
	38	298	60	322	48	165	19	45	165	830

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Hamilton Jordan

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Regional Administrator for
EPA Region IV Atlanta

THE PRESIDENT HAS SEEN.

SUBJECT: Appointment of Regional Administrator for U. S. Environmental Protection Agency, Region IV, Atlanta

*Ham - Let me
see list of names
before any action
is taken on EPA
regional director
J.C.*

As a result of the efforts and strong support of Georgia's Environmental Protection Division by former Governor Carter and now Governor Busbee, Georgia has one of the outstanding environmental protection programs in the United States. The State has been effective in correcting existing pollution problems and in implementing a program to manage the environmental and natural resources in the best interest of all the people for the future. Georgia's environmental program has credibility with environmental groups, industry, local government officials, industrial development groups and the general public.

During the past five years most States have improved their environmental protection programs, including the southeastern States. It is important that the States be granted more flexibility and authority to conduct these programs whenever they demonstrate the ability and willingness to meet their responsibilities.

A number of appointments will be made by the new Administration for regional offices in Atlanta; however, there is one particular position, the Regional Administrator of EPA, that could have a very significant impact on the South. The eight southeastern states are included in the area covered by Region IV, which is headquartered in Atlanta. The Regional Administrator is in a position to have broad impact on these eight states.

It is essential to Georgia that the person appointed as Regional Administrator, EPA, be someone who will work with the State. This person should be knowledgeable in the field of environmental protection and be committed to supporting State environmental protection programs when the State is conducting an effective program. The appointee must recognize the importance of wise economic development and the need to coordinate economic development with realistic

**Electrostatic Copy Made
for Preservation Purposes**

environmental protection programs. Anyone placed in this position that is unable to establish credibility with the business and industrial community, the States, local governments, and the environmental community will have an adverse impact on the progress of economic development and environmental protection in the States.

Georgia is an example of a State that has coordinated all environmental programs and obtained delegation from the Federal EPA for the responsibility of administering these programs. It is essential that the Regional Administrator allow the State to regulate and manage its environmental and natural resources consistent with Federal and State laws. Specific examples of areas that must be managed by the State with minimal Federal interference include:

1. The location and siting of new industries in the State.
2. The ability of the State to promptly evaluate proposed industries or expansions and issue the required permits expeditiously without second-guessing from EPA.
3. Authorize and encourage continued delegation of Federal authority to the State so that the State may continue to conduct the present "one-stop" permit program.
4. Allow the State to work with local officials, with minimal intervention and delays by EPA, in the processing of Federal construction grants for water pollution control projects to minimize inflationary costs and to provide increased public works jobs across the State. The Federal construction grants program for publicly owned water pollution control projects is the largest public works program in the Nation today. In 1975 inflation increased the cost of construction for these type projects by 15 percent,

then in 1976 the costs were increased by another 7.5 percent. These type projects must be processed expeditiously to provide more public works jobs, hold down inflationary costs, and to complete the cleanup of the Nation's waterways.

5. Allow the State maximum flexibility in its environmental programs in order to enable the State to manage these programs most efficiently with the least cost to the taxpayer.

Several individuals are seeking the appointment for this position and most of them do not have a philosophy consistent with the factors expressed above. For this reason, it is requested that Georgia, as well as other States, be granted some input in the selection of this person. An opportunity to review the list of potential appointees and to provide comments back to the Administration should be helpful to the State and the Administration.

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
<input checked="" type="checkbox"/>	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input checked="" type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Jody Powell -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Proposed Interview Schedule
Prior to the International
Summit

cc Barry Jagoda

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
X	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE WHITE HOUSE

WASHINGTON

ACTION

April 8, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: JODY POWELL *J.P.*
JERRY SCHECTER *JS.*
BARRY JAGODA *B.J.*

SUBJECT: Proposed Interview Schedule Prior to
the International Summit

As you will recall, we discussed the press plan that will most effectively project your foreign policy design and goals before your arrival for the international summit. The following proposals have been discussed with Dr. Brzezinski and the State Department and there is concurrence that you should consider three interviews:

1. The President (Douglass Cater) and Associate Editor (Kenneth Harris) of the London Sunday Observer request a joint interview which would concentrate particularly on filling out details about your style, presentation, and approach to leadership. The Observer interview would be widely distributed by their news service and would take place within the next week or two.
2. The British Broadcasting Corporation (BBC) has requested a 30-minute interview in the White House with you, three European journalists and a moderator. This European coproduction would be broadcast during prime time (8:00 p.m.) on Monday, May 2, and the tape would be made available to all European and Middle Eastern networks.
3. Four European newspapers (Le Monde of France, The Times of London, La Stampa of Italy, and Die Welt of Germany) have requested a joint interview with you. This interview, dealing with a general foreign policy overview and approach to the summit, would foreshadow the major issues but not reveal specific negotiating details. It would be published simultaneously in the four papers and would be timed to appear just before the summit but after your TV appearance. The interview would be conducted in the White House about April 25.

RECOMMENDATIONS:

That you agree to the interview with Douglass Cater and Kenneth Harris of the London Sunday Observer:

_____ APPROVE _____ DISAPPROVE

That you agree to the interview with the BBC:

✓ _____ APPROVE _____ DISAPPROVE

That you agree to the joint interview with Le Monde of France, The Times of London, La Stampa of Italy, and Die Welt of Germany:

_____ APPROVE _____ DISAPPROVE

*Each would run about 30 min.
J*

*Why not combine
1 + 3 ?
J*

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

4/11/77

Bert Lance -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Recommendations to Reduce
the Number of Flag/General
Officers

"DETAILS WOULD BE TO THE FBI ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12806, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 18, 1983"

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

4/11/77

Bert Lance -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Recommendations to Reduce
the Number of Flag/General
Officers

"DETAILS SHOULD BE REMOVED FROM ALL DOCUMENTS
CANCELED PER E.O. 12958, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983"

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

<input checked="" type="checkbox"/>	ENROLLED BILL
<input checked="" type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	FOR STAFFING
	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
<input checked="" type="checkbox"/>	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE PRESIDENT HAS SEEN.

RECOMMENDATIONS TO
REDUCE THE NUMBER OF
FLAG/GENERAL OFFICERS

MADE BY
ADMIRAL H. G. RICKOVER
ON APRIL 4, 1977
BEFORE THE SUBCOMMITTEE
ON MANPOWER AND PERSONNEL
SENATE ARMED SERVICES COMMITTEE

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12958, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983"

Confidential
To Bert Lance -
Let one of your
OMB staff assess
Rickover's points for
me - J.C.

RECOMMENDATIONS

- A. Military personnel costs continue to take an increasing share of the DOD budget. Immediate, as well as long range fiscal benefits can be realized if reduction in personnel requirements can be found. One simple and effective means is to immediately reduce the number of flag/general officers in all military services. By any standard of comparison their number has undergone a disproportionate inflationary spiral.
- B. I would reduce the number of flag/general officers in the following manner:
1. Reduce the overall flag/general officer strength 10% per year for the next five years by eliminating flag/general officer billets. Half of this yearly reduction should be through reduced selection, the other half through forced retirement of senior flags/generals.
 2. Realign the number of flag/general officers in the various Services, except the Marine Corps, so that they are in direct proportion to the overall military strength of that Service -- not just the officer strength. This will force the Army and Air Force down to a percentage comparable to that of the Navy. In the case of the Marine Corps, the number of general officers should be calculated using 75% of their overall strength. In no case should the number of general officers be increased over their present level.

3. Realign the number of 3 and 4 star flag/generals in each service to be proportional to the military strength of that service. Reduce the number of 3 and 4 star flag/general officers in each service so that they are no more than 10% of the total flag/general officer strength of that Service. In no case should there be more than four 4 star flag/general officers in any of the Services except in the case of the Marine Corps where there should be only one.
4. The number of staff flag/general officers should be reduced to the barest essential.
5. The Services should be required to identify the actual billets that will be eliminated in achieving these reductions. In this identification, the Services should be required to reduce the number of flag/general officer billets in the Washington area by at least 40% of their current levels.
6. There should be no open-ended loop-holes in the law which would allow by-passing the required reductions such as excluding temporary promotions without the express approval of Congress. Exceptions for wartime or times of national emergency should also have the approval of Congress.
7. In order to reduce the number of flag/general officer requirements, and in fact, overall savings of manpower, require that certain shore establishments, particularly within the United States, be unified.

For example, why is it necessary to have a Naval Hospital and an Army Hospital in the same city? Why can't all military air fields be "military" rather than Navy or Air Force? A number of training commands could be combined. Why do we need Naval District Commandants? Why can't officers and enlisted men from any of the services carry out many similar duties at shore stations. I agree this can not be done across the board because there are certain functions which relate solely to a given Service. However, a great saving in total manpower could be realized if this sort of unification were required. In this connection some of the blame rests with Congress. When the DOD attempts to unify or close certain military establishments the effected Congressional representative opposes the closing with such pressure that DOD is forced to pull back. In my opinion the leadership of the Congress has got to assert itself within its own ranks. If economy in military manpower is to be achieved Congress must support it even if individual Congressional districts may be affected. I can relate a current situation that illustrates this point. The Navy planned to replace a Rear Admiral at a Naval Shipyard with a Captain as Shipyard Commander. When word of this reached the Congressmen in that area they complained bitterly to Navy arguing that by putting a Captain in that job it would somehow "degrade" the stature of the yard. So here is a case where the Navy

wanted to drop the rank but was opposed by Congress. Incidentally, the Navy has held its position in this case and the Captain will be ordered in. I can't give the Navy too much credit for this because their motive in this case was not to reduce the total number of flag officers but was done because they didn't have a flag officer available.

8. In connection with reducing the number of flag/general officers, it is also important to force the entire officer grade structure to be reduced at the same time. In other words, Congress must require the military services to also reduce the number of Captains/Colonels, etc., in some appropriate ratio to be determined.
9. In order to return to a reasonable grade/age relationship, i. e., the age of an officer as he or she attains various ranks, it is important for Congress to reinstate the requirements contained in Officer Personnel Act of 1947.
10. If the measures I have described are not taken we are soon going to reach the stage where having a viable armed force may be too expensive for the United States to afford. As it is now, we are spending so much on personnel costs that insufficient funds are available to build all the ships and hardware we need.

FLAG/GENERAL OFFICER LIMITS
IF RECOMMENDATIONS ARE IMPLEMENTED

<u>FY</u>	<u>USA</u>	<u>USN</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
1976	458 (43)*	278 (45)	380 (74)	69 (9)	1,185 (171)
1977	412 (41)	278 (28)	308 (31)	69 (7)	1,067 (107)
1978	368 (37)	250 (25)	275 (28)	67 (7)	960 (97)
1979	332 (33)	225 (23)	247 (25)	60 (6)	864 (87)
1980	298 (30)	202 (20)	222 (22)	54 (5)	777 (77)
1981	269 (27)	182 (18)	200 (20)	49 (5)	700 (70)

*Numbers in parenthesis are the numbers of 3 & 4 star flag/general officers

TOTAL FORCE LEVELS FOR FEBRUARY 1977

	<u>USA</u>	<u>USN</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
1977	779,097	528,820	580,654	189,048	2,077,619

TESTIMONY BY
ADMIRAL H. G. RICKOVER
BEFORE THE
SUBCOMMITTEE ON MANPOWER AND PERSONNEL
SENATE ARMED SERVICES COMMITTEE
CONCERNING
REDUCTION IN NUMBER OF
FLAG/GENERAL OFFICERS
IN THE U. S. MILITARY SERVICE
APRIL 4, 1977

Monday, April 4, 1977

As you are aware, my military experience of more than 50 years has been in the Navy, and I am able therefore to talk with greater familiarity of that service than the others. However, I believe there are many similarities in all services to the ones I speak of today.

In ancient times a philosopher came to a city. He was determined to save its inhabitants from sin and wickedness. Night and day he walked the streets and haunted the marketplaces. He preached against greed and envy, against falsehood and indifference. At first the people listened and smiled. Later they turned away; he no longer amused them. Finally, a child moved by compassion asked: "Why do you go on? Do you not see it is hopeless?" The man answered: "In the beginning, I thought I could change men. If I still shout, it is to prevent men from changing me."

I feel like that man as I talk to you today. I have fought for reform in the Navy for years. If I still shout, it is because I am afraid the Navy will not be able to meet the demands which will be placed upon it in the future.

It is not uncommon for our military to devote time on unimportant matters. As an example, between World Wars I and II the Secretary of the Navy promulgated a General Order—the highest type of official directive that can be issued—concerning the Navy's homing pigeon establishment. This Order divided responsibilities for the care and operation of pigeons among the Bureau of Engineering, the Bureau of Construction and Repair, the Bureau of Navigation, and the Director of Naval Communications. All

these organizations were involved in pigeons at one time or another. Their responsibilities included, among other things, pigeon population and banding, transportation, housing and food. There were also plans and literature concerning the pigeon service, miscellaneous equipment, and other pigeon problems.

The pigeon service has now been abandoned by the Navy. That, along with the disbanding of the last detachment of Indian Scouts in 1943, and the requirement for Army aviators to wear spurs in 1938, is one of the rare occasions in U.S. military history where a function has been abolished.

Today—with the inflated rank in the Navy—if we still had the pigeon service—the senior pigeon in the pecking order would, I suppose, be a line admiral. It would be claimed, as the argument so often goes, he needed this rank to deal effectively with his peers in the Army, the Air Force, and the other foreign pigeon services.

The staff of the Chief of Naval Operations has grown in recent years, until it now includes 65 admirals. This is about twice as many as were assigned to Fleet Admiral King's staff at the height of World War II. In addition, the staff of the Chief of Naval Operations has more than 300 captains in comparison to only 187 billets for captains to command all ships and squadrons at sea. There are also over 320 commanders on this staff, as well as many senior civilians and lower-ranking officers. These staff officers get involved in technical matters for which they have no

qualifications. Once I attended a Chief of Naval Operations meeting at which the only subject discussed was technical ship characteristics. In addition to the large number of line admirals present, there was also a Marine general—although the meeting had nothing to do with the Marine Corps. He volunteered no comments; how could he?

Reform of an institution rarely comes from within. Inertia and resistance are too strong from those who shelter behind the ramparts of custom or find comfort from the soothing narcotic of ritual. Occasionally the defense against new ideas takes strange forms. In 1897, Theodore Roosevelt was chairman of a board set up to reduce the number of senior line officers—a problem that is still with us today. Promotion had been so slow that the upper ranks were filled with men who arrived too late in their life to learn how to exercise responsibility. A few officers on the board seriously proposed that the reduction be made by a system of chance—a sort of lottery—so that the choice of officers to be retired would be made "without the intervention of human intelligence."

Today, many of our military leaders are actually "cheerleaders," making heroic attempts to keep their service together with endless exhortations and lectures on the value of leadership. Yet they, themselves, are not knowledgeable enough to instruct or to see that the work has been done properly. What we must recognize is that the purpose of our military is to defend the country, not to provide a place for comfortable careers. Because our officers are the cutting edge of our military strength, we must make no compromise with their ability.

To a large extent, each service reflects the Department of Defense. Here, too, we are overwhelmed with a suffocating organization. In 1969, the Secretary of Defense asked a leading executive from private industry to serve as chairman of a committee to investigate the Department. Based on the work of his committee, the chairman wrote: "The Defense Department is the single most wasteful, incompetent, overstaffed department in the Government. It consists largely of paper-shufflers and memo-writers." He was right. As was to be expected, the recommendations of this board—like its innumerable predecessors—were not taken seriously. Boards and commissions are useless because they can only suggest. Frequently they are set up just to quiet criticisms by showing that "action" is being taken. Government files are replete with reports of boards and committees which have never been acted on.

Today we have new leadership in the military and in the Department of Defense. I hope these men will give serious thought to streamlining our defense establishment and improving its competence. I said earlier that we had misread our naval past. I study naval history from the perspective of an officer who is interested in the development of his profession. To me, most of these histories are seriously flawed. With a few notable exceptions, they are written by the victors to hail their own achievements. It is true in any walk of life that past success can engender a dangerous confidence and complacency that can lead to future defeat. In the glow of victory, all error is forgotten.

When I am told that I should not attack any of the policies of the Navy Department, it is the same as saying that a son should not warn his mother of a cliff until she has fallen over it. Perhaps, in the end, the facts of life, like a sheepdog with an awkward flock, will finally nudge the Navy toward common sense. But I doubt it. Had I refrained from attacking the policies of the Navy Department over the past 25 years and not gone to Congress and the Atomic Energy Commission, we probably would not now have our nuclear Navy which is a prime factor in keeping war from this country.

Like the philosopher who came to the ancient city, I know that reform means progress, and progress means strife. Where there is no friction, there is no motion. It has always been this way. We must ever seek the purpose of our lives. We must not give in to despair over the state of our competence as it is today. The danger lies in the future; it can be averted if we will but act.

Unpleasant facts are unwelcome and no one builds statues to critics. But today we are not quite as impatient of a critic as the ancient Locrians. These people gave freedom of speech to all citizens. At public meetings anyone could stand up and argue for changes in law or custom, on one condition. A rope was placed around his neck before he began to speak and, if what he said did not meet with public approval, he was forthwith hanged. That, no doubt, prevented disturbing the even tenor of familiar customs and ways of life. I have encountered some in the Navy who look with nostalgia on this ancient custom.

But we must face the stark fact that an uncriticized society cannot long endure.

I. BACKGROUND

- A. It is important first to understand how the number of flag/general officers in the military services is established by law. The current level of all military officers has its origin in the Officer Personnel Act (OPA) of 1947. This was enacted after World War II at the same time the services were unified under the National Security Act of 1947. The Officer Personnel Act constrained all Services (Army, Navy, Marine Corps) in numbers of regular officers holding permanent appointments in various grades. Temporary appointments in higher grades were allowed in order to ease the planned 10 year transition from World War II to a permanent regular force.

The Officer Personnel Act set the limit on the number of permanent flag/general officers in the Services as follows:

	<u>USN</u>	<u>USA & USAF</u>	<u>USMC</u>
OPA	207	357	36
Actual 1947	327	602	47

In all of the above cases, the OPA allowed exceeding the specified number in time of war or national emergency. Thus, while allowing 10 years for the drawdown, exceptions were also permitted while the national emergency continued.

- B. As a result of the Korean Conflict starting in 1950, the number of flag/general officers began to rise (see TAB A). The Navy increase was the smallest because the war requirements imposed on the Navy were smaller in comparison to those on the Army and the Air Force. In addition, the Navy was attempting to keep the number of flag officers close to the permanent regular limits expected to be imposed by 1958 as a result of the Officer Personnel Act (OPA).
- C. As the Korean Conflict drew to a close and the Cold War intensified, it became evident to the Congress and the Administration that the small, stable regular armed forces envisioned by the OPA were not to be achieved, even by 1958. Congress also became alarmed over the increase in the number of temporary promotions—a practice not specifically addressed in the OPA. Therefore, in 1954, Congress enacted the Officer Grade Limitation Act (OGLA) which provided limitations on the total number of officers in each of the higher grades, temporary and permanent. As a departure from the OPA of 1947, the 1954 Act set limitations in each grade based on a percentage of the total officer corps. However, in neither the 1947 nor the 1954 Act did the size of the officer corps, or the grade structure, depend on the total strength of the particular service.
- It appears that the Officer Grade Limitation Act ceilings were very closely based on the proportionate grade strengths existing for each

of the Services at that time. For this reason the Navy was permanently penalized for its previous restraint.

The Officer Grade Limitation Act remains as the present legal ceiling for each of the Services and is as follows:

	<u>USN</u>	<u>USA</u>	<u>USAF</u>	<u>USMC</u>
OGLA	316	488	380	72
Actual (1954)	286	485	374	60
Actual (1977)	273	450	374	68

It is noteworthy that neither the Officer Personnel Act nor the Officer Grade Limitation Act addressed the number of three or four star officers. It can only be assumed that Congress felt it had full control of those officers, since each billet and person being assigned to that billet had to obtain the advice and consent of the Senate.

- D. In 1955, the so-called Stennis Ceiling was administratively imposed on flag/general officer numbers, as concern over this issue continued. The Stennis Ceiling which is still in effect, is:

<u>USN</u>	<u>USA</u>	<u>USAF</u>	<u>USMC</u>
287	475	425	60
302 (1965 change)			

E. In 1962, the Bolte Committee (6 generals, 2 flags), was formed within DOD to conduct a comprehensive review of officer personnel law. It recommended reapportionment of flag/general numbers among the Services to the substantial advantage of the Navy. The follow-on "Bolte Legislation" sent to Congress in 1965 by Cyrus Vance, the then DEPSECDEF, died, due in large measure to the flag/general officer provisions.

F. In FY-75, Congress appropriated only enough funds for 1200 flag and general officers on active duty in all Services. The Secretary of Defense (OSD) allocated these numbers among the Services. It seems that the allocation was roughly apportioned as an equal percentage reduction from existing numbers. This "OSD Ceiling" applies to all active duty flag and general officers. The FY-75 OSD ceilings were:

<u>USN</u>	<u>USA</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
287	458	386	69	1200

G. Since FY-75, OSD has regularly imposed new, lower, administrative ceilings:

	<u>USN</u>	<u>USA</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
FY-76	278	458	380	69	1185
FY-77	273	450	374	68	1165
FY-78	266	441	367	67	1141

These ceilings have been imposed by OSD without legislation by the Congress. However, it can be assumed that a combination of forces have influenced OSD to take this action, namely: the mood of Congress, the press, and the Administration through the Office of Management and Budget have all given OSD the signal to reduce the number of flag/general officers. For example, a review of the past 5 or 6 year's Defense Authorization hearings shows that this issue is repeatedly raised, usually by the Senate.

II. TRENDS IN FLAG/GENERAL OFFICER STRENGTH

- A. At the peak of World War II there were 2068 flag officers in the U. S. military services. This means that there was one flag officer for approximately 6000 military personnel. Today there are 1185 flag officers, or one flag officer for 1785 military personnel. Put in different terms, if we had the same ratio of flag officers to military personnel today as we had at the peak of World War II, we would have 354 flag officers, rather than the 1185 we have.

- B. The following is a comparison of the number of military personnel (officer and enlisted) in each service for each flag/general officer in that service at the end of World War II, ten years ago, and today.

<u>YEAR</u>	<u>USA</u>	<u>USN</u>	<u>USAF</u>	<u>USMC</u>	<u>OVERALL</u>
1945	6770	7193	7658	6140	5862
1967	2790	2423	2082	3753	2531
1977	1731	1937	1552	2780	1785

- C. During the past 10 years, from 1967 to 1976, the total number of all military personnel in the U. S. Armed Services has decreased 38%, the total officer strength has decreased by 27%; but the flag/general strength has decreased only by 11%.
- D. In the Air Force, during this 10 year period, the total Air Force strength decreased by 34%, whereas the number of 3 star and 4 star Air Force Generals increased by 8%.
- E. Since the end of World War II our overseas flag officer structure has been especially inflationary. This has come about because the U. S. and foreign governments have entered into a competition to match or better their own grade structure. If we assign a Navy Captain, they assign an Admiral. To counter that, we assign an Admiral and the inflation continues. Then the Admiral needs better quarters, more or better automobiles, drivers, and a larger staff.

- F. Each flag officer, irrespective of assignment, will tend to create a multi-layer organization beneath him in order to justify his rank and position. Usually these staffs are enlarged to become separate offices and they are used to justify additional flag officer assignments. If these new offices performed a useful function there might be some justification for their creation. However, in most cases the new office merely adds an additional layer of administration and ultimately distracts from the orderly and timely performance of essential work.
- G. The argument that we need more flag/general officers today than we had twenty years ago because technology has made our armed forces more sophisticated is specious. Promoting officers faster and making them flag/general officers younger does not make them smarter, more intelligent, or better able to handle today's problems. In fact I firmly believe the opposite is true. Producing technically competent officers for our military services is a product of our entire educational process—a subject I have addressed before Congress on many occasions.

III. RECOMMENDATIONS

- A. As you are aware I am a 4-star Flag Officer. I was promoted to

this rank by a Congressional Act—not by the request of the Navy Department. Nevertheless, if Congress goes along with my recommendations to reduce the number of Flag Officers, I would be quite willing to be reduced in rank. I can perform my work just as well.

Military personnel costs continue to take an increasing share of the DOD budget, it is quoted as being about 57% today. Immediate, as well as long range fiscal benefits, can be realized if reduction in personnel requirements can be found. One simple and effective means is to immediately reduce the number of flag/general officers in all military services. By any standard of comparison their number has undergone a disproportionate inflationary spiral.

B. I would reduce the number of flag/general officers in the following manner:

1. Reduce the overall flag/general officer strength 10% per year for the next five years by eliminating flag/general officer billets. Half of this yearly reduction should be through reduced selection, the other half through forced retirement of senior flags/generals.
2. Realign the number of flag/general officers in the various Services, except the Marine Corps, so that they are in direct

proportion to the overall military strength of that Service—not just the officer strength. This will force the Army and Air Force down to a percentage comparable to that of the Navy.

In the case of the Marine Corps, the number of general officers should be calculated using 75% of their overall strength. In no case should the number of general officers be increased over their present level.

3. Realign the number of 3 and 4 star flag/generals in each service to be proportional to the military strength of that service. Reduce the number of 3 and 4 star flag/general officers in each service so that they are no more than 10% of the total flag/general officer strength of that Service. In no case should there be more than four 4 star flag/general officers in any of the Services except in the case of the Marine Corps where there should be only one.
4. The number of staff flag/general officers should be reduced to the barest essential.
5. The Services should be required to identify the actual billets that will be eliminated in achieving these reductions. In this identification, the Services should be required to reduce the number of flag/general officer billets in the Washington area by at least 40% of their current levels.

6. There should be no open-ended loop-holes in the law which would allow by-passing the required reductions such as excluding temporary promotions without the express approval by Act of Congress. Exceptions for wartime or times of national emergency should also have the approval of a Congressional Act.

7. In order to reduce the number of flag/general officer requirements, and in fact, overall savings of manpower, require that certain shore establishments, particularly within the United States, be unified. For example, why is it necessary to have a Naval Hospital and an Army Hospital in the same city? Why can't all military air fields be "military" rather than Navy or Air Force? A number of training commands could be combined. Why do we need Naval District Commandants? Why can't officers and enlisted men from any of the services carry out many similar duties at shore stations. I agree this cannot be done across the board because there are certain functions which relate solely to a given Service. However, a great saving in total manpower could be realized if this sort of unification were required. In this connection some of the blame rests with Congress. When the DOD attempts to unify or close certain military establishments the affected congressional member often opposes the closing. The pressure is so great that DOD is forced to pull back. In my opinion the leadership of the Congress has got to assert itself within its own ranks. If economy in military manpower is to be achieved, Congress must support it even if individual congressional districts may be affected. I can relate a current situation that illustrates this point. The Navy planned to replace

a Rear Admiral at a Naval Shipyard with a Captain as Shipyard Commander. When word of this reached the Congressmen in that area they complained to the Navy arguing that by putting a Captain in that job it would somehow "degrade" the stature of the yard. So here is a case where the Navy wanted to drop the rank but was opposed by Congress. Incidentally, the Navy has held its position in this case and the Captain will be ordered in. I can't give the Navy too much credit for this because the motive in this case was not to reduce the total number of flag officers but was done because they didn't have a flag officer available.

8. In connection with reducing the number of flag/general officers, it is also important to force the entire officer grade structure to be reduced at the same time, In other words, Congress must require the military services to also reduce the number of Captains/Colonels, etc., in some appropriate ratio to be determined.
9. In order to return to a reasonable grade/age relationship, i. e., the age of an officer as he attains various ranks, it is important for Congress to reinstate the requirements contained in Officer Personnel Act of 1947.

10. If the measures I have described are not taken we will soon reach the stage where having a viable armed force may be too expensive for the United States to afford. As it is now, we are spending so much on personnel costs that insufficient funds are available to build all the ships, planes, and hardware we need.
- C. As a corollary to the flag/general officer issue, Congress should also review the number of high grade civilians working for the federal government. To an even greater extent that in the military officer area, the number of high grade Civil Service and politically appointed civilians throughout the federal government has grown out of proportion to job responsibility. There are many reasons for this which you are well aware of. However, regardless of cause, it is time for either the Administration or Congress to act to reduce this form of inflation. The reason I mention this in connection with the flag/general officer discussion is that, in the case of the military services, one inflation feeds on the other. More flag/general officers are created and assigned to Washington to counteract the continuing increase in the number of high ranking civilians in the military. Conversely, one of the arguments for increasing the number of high ranking civilians is to counteract the number of generals and admirals they have to deal with. In

any event, the only way to stop the argument is to force both of them to reduce. While I mention this point with regard to the Department of Defense, the situation exists to an even greater extent in other federal agencies. Congress ought to review the entire federal high grade civilian policy for both Civil Service and political appointees.

IV. CONCLUSION

If the recommendations I have just cited were carried out, I believe the following benefits would accrue:

- We would save at least 100,000 military and civilian billets.
- There would be an eventual overall grade reduction within the military.
- There would be a reduction in the overall officer requirements in all grades.
- It would permit more efficient use of military and civilian personnel.
- A damper would be placed on Civil Service grade creep, combined with an overall reduction in the high grades.

TAB A

ACTIVE DUTY FLAG & GENERAL OFFICERS SINCE WWII
(AT END FY)

<u>FY</u>	<u>USN</u>	<u>USA</u>	<u>USAF</u>	<u>USMC</u>
45	470	1,221	298	79
46	467	689	174	66
47	327	435	167	47
48	261	378	177	44
49	265	348	207	44
50	267	343	227	44
51	276	436	285	49
52	289	479	320	54
53	277	479	382	59
54	286	485	374	60
55	291	492	396	60
56	299	495	422	63
57	295	503	414	64
58	299	494	425	64
59	294	487	424	63
60	292	486	424	58
61	293	475	426	60
62	297	512	433	61
63	298	506	427	61
64	292	507	435	60
65	289	505	433	60
66	310	503	436	60
67	310	517	431	76
68	312	521	443	76
69	312	519	439	78
70	311	514	435	79
71	314	513	426	77
72	317	514	420	73
73	311	499	410	71
74	297	481	399	71
75	286	458	386	69
76	278	458	380	69
77	273	450	374	68
78	266	441	367	67

TAB A

TAB B

FLAG/GENERAL OFFICER LIMITS
IF RECOMMENDATIONS ARE IMPLEMENTED

<u>FY</u>	<u>USA</u>	<u>USN</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
1976	458 (43)*	278 (45)	380 (74)	69 (9)	1,185 (171)
1977	412 (41)	278 (28)	308 (31)	69 (7)	1,067 (107)
1978	368 (37)	250 (25)	275 (28)	67 (7)	960 (97)
1979	332 (33)	225 (23)	247 (25)	60 (6)	864 (87)
1980	298 (30)	202 (20)	222 (22)	54 (5)	777 (77)
1981	269 (27)	182 (18)	200 (20)	49 (5)	700 (70)

*Numbers in parenthesis are the numbers of 3 & 4 star flag/general officers

TOTAL FORCE LEVELS FOR FEBRUARY 1977

	<u>USA</u>	<u>USN</u>	<u>USAF</u>	<u>USMC</u>	<u>TOTAL</u>
1977	779,097	528,820	580,654	189,048	2,077,619

COMPOSITION OF FIRST SENIOR
NAVAL OFFICER SHIP MATERIAL
READINESS COURSE AT IDAHO

The first class of the Senior Officer Ship Material Readiness Course included nine Rear Admirals and fifteen Captains, a total of 24. Thirteen members were surface warfare officers, and eleven were aviators. Fifteen had a technical undergraduate background; of the fifteen, twelve were from USNA. Of the seventeen with graduate education, only six were in a technical field. Of the remaining eleven, six studied foreign affairs, two political science, one law, one business, and one public affairs. All had already had at least one ship command; twelve had had two or more; this includes ship, squadron, and group commanders. However, only one had any operational engineering experience.

DECLASSIFIED
 White House Guidelines, September 11, 2006
 NARA *[Signature]* Date 11/14/13
 THE WHITE HOUSE
 WASHINGTON

top secret
handwritten

ACTION	FYI
	MONDALE
	COSTANZA
<input checked="" type="checkbox"/>	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input checked="" type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

TOP SECRET

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Z. Brzezinski

Re: International Econometric
Models

DECLASSIFIED
White House Guidelines, September 11, 2006
NARA Date 1/16/03

~~SECRET~~**TOP SECRET**

THE WHITE HOUSE

WASHINGTON

April 8, 1977

*To Stu: It seems
that some of these
can be combined/cut
(like FEA). Be sure data
is exchanged among
agencies & advise
Stu on duplication
of effort*

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG

SUBJECT:

International Econometric Models
(Prepared at your request)

You asked for a determination of how many different econometric models are being used by the Federal government for international analysis. This memorandum summarizes findings about the government's use of such models; it also discusses the recently publicized error of the CIA in forecasting Soviet defense expenditures.

I. USE OF ECONOMETRIC MODELS BY FEDERAL AGENCIES

With the help of CEA and CIA, we have determined that the Federal government is now using the following international econometric models (listed by agency use):

CIA

1. Country Models Linked by International Transactions

25X1

2. Simulation Model of World Econometric Linkages (a model used to assess the impact of changes in the rate of growth of GNP in one or more countries);

3. Econometric Model of [] Economy;

25X1

4. Econometric Model of the Soviet Economy (macro-model which forecasts annual values for GNP, incomes, foreign trade, employment, capital stock, productivity and wages);

25X1

5. Energy Demand Model (forecasts future levels of total energy consumption)

SANITIZED

Per; Rep Project

ESDN: NLC-126-7-41-0

BY: [] MARA, DATE 1/16/13

NLC Review Completed.

TOP SECRET
25X1

6. Model of Gasoline Demand (forecasts demand for gasoline)

7. Common Fund Simulation Model (shows how commodity price stabilization would have worked under alternative buffer agency agreements); and

8. Accounting Models of OPEC and Soviet Current Accounts (provide quick assessments of the effect of changes in particular aspects of current accounts).

Federal Reserve

1. Balance of Payments Model of the U.S.

2. U.S. Nonagricultural Exports and Nonfuel Imports (forecasts quarterly volume and price of nonagricultural exports and nonfuel imports);

3. U.S. Energy Demand Model (forecasts U.S. fuel imports); and

4. U.S. Agricultural Exports Model (forecasts volume and price of U.S. agricultural exports - still in development stage).

Treasury Department

-- Project Link (ongoing attempt to develop models for most of the world's countries and link them through their international transactions).

Federal Energy Administration

-- International Evaluation System (forecasts international oil markets).

As the above listing indicates, CIA has one econometric model for the Soviet Union economy. That model, which is the only econometric model of the Soviet economy available outside the Soviet world, is known as SOVMOD; 25X1

The CIA has supplied most of the data used by the model and is currently installing SOVMOD in its own computers. CIA economists have great hope that SOVMOD can supplement their traditional estimating methods for the Soviet economy. However, the model will always

~~TOP SECRET~~

be subject to the unavailability and inaccuracy of the Soviet data, especially data related to defense programs.

This new model will not by itself greatly improve CIA estimates of Soviet defense expenditures. Those estimates are an input into the SOVMOD model -- knowledge of Soviet defense expenditures must come from sources other than econometric models. What SOVMOD can be expected to do is provide greater insight into the relationship between Soviet defense spending and the rest of the Soviet economy.

II. FORECASTING SOVIET DEFENSE EXPENDITURES

As you probably know, Business Week recently published an article accusing the CIA of having underestimated Soviet Defense spending, primarily because of poor economic forecasting techniques. Because your request for information about international econometric models came at the time of the Business Week article, we thought you might also be interested in a brief assessment of that article.

1. Revision of Estimates. The article accurately reports that in May, 1976 the CIA announced a major upward revision in its estimates of the level and trend of Soviet ruble spending for defense:

(a) the estimate of total ruble spending for defense was doubled;

(b) The estimate of ruble spending for Soviet military investment -- the procurement of weapons and equipment and the construction of facilities -- was increased by 2-1/2 times;

(c) The estimate for the annual growth in Soviet defense spending in rubles for the 1970-1975 period was increased from 3% to 4 - 5%; and

(d) the estimate of Soviet defense spending as a share of Soviet GNP over the 1970-1975 period was increased from 6-8% to 11-13%.

2. The Method of Estimating Soviet Defense Expenditures.

Since the Soviet Union does not publish meaningful data on its defense spending, the CIA estimates Soviet spending using a direct costing approach. [REDACTED] 25X1

[REDACTED] Since many of the ruble prices are obviously not available, these are obtained by translating the dollar costs for the items involved into

NOT A MEMO WAS SENT.

THE WHITE HOUSE
WASHINGTON

April 8, 1977

①

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

Stu

SUBJECT: Cables From Ambassador Strauss

Attached are two cables from Ambassador Strauss, one dealing with the question of the "gas guzzler" tax and rebate, and the other is an informational cable. The problem raised in his first cable will not be resolved until Ambassador Strauss has an opportunity for comment.

The information in the second cable may have been communicated to you directly or indirectly, but I did want you to see it in case you had not received this information.

THE WHITE HOUSE
WASHINGTON

ACTION	
FYI	
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE WHITE HOUSE
WASHINGTON

*make sure status
on 125 cable board
received copies*

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE WHITE HOUSE
WASHINGTON

April 11, 1977

Jim Schlesinger -

The attached was returned in the
President's outbox and is forwarded
to you for your information.

Rick Hutcheson

Re: Cable from Ambassador Strauss
re "gas guzzler"

012

*****CONFIDENTIAL***** COPY

cc:
Schlesinger
J

OP IMMED
TKI094
DE RUEHKO #4966 0970650
O 070542Z APR 77
FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 8733

~~CONFIDENTIAL~~ TOKYO 4966

EXDIS
FROM STRAUSS
FOR EISENSTAT, FOR IMMEDIATE ATTENTION OF THE PRESIDENT,
CHRISTOPHER KREPS, BLUMENTHAL, BERGSTON, OWEN
E.O. 11652: B08
TAGS: ETRD
SUBJECT: FUEL EFFICIENCY TAX ON AUTOS

1. I UNDERSTAND THAT ON WEDNESDAY A MECHANISM WAS BEING CONSIDERED FOR APPLYING FUEL EFFICIENCY REBATES AND PENALTIES TO IMPORTED AUTOMOBILES. I UNDERSTAND PROPOSAL NOW UNDER CONSIDERATION, IT WOULD HAVE SERIOUS ADVERSE TRADE IMPACT ON EUROPE AND JAPAN WHICH WOULD MAKE TV AND SHOE CASES PALE BY COMPARISON.

2. ACTION ALONG THESE LINES WOULD SERIOUSLY UNDERMINE ALL OF OUR EFFORTS TO OBTAIN COOPERATION TOWARD SUMMIT AND BEYOND ON TRADE ISSUES WHICH I AM NOW SEEKING WITH JAPANESE AND WILL LATER SEEK IN EUROPE. WE WILL HAVE NO CREDITABILITY IF ON ONE LEVEL WE SEEK SUCH COOPERATION TOWARD MANAGING CURRENT CONTENTIOUS TRADE ISSUES WHILE ACTING UNILATERALLY IN A WAY WHICH WOULD DISCRIMINATE AGAINST JAPAN AND EUROPE ON ONE OF THEIR MAJOR EXPORT ITEMS TO THE U.S.

3. I REQUEST THAT ANY DECISION TO PUT THIS PROPOSAL FORWARD TO THE CONGRESS BE DELAYED UNTIL MY RETURN TO WASHINGTON MONDAY, APRIL 11.
SHOESMITH
BT

DECLASSIFIED
Per: Rac Project
ESDN: NLC-~~DE~~-7-4-1-9
BY: Q NADA DATE 11/16/13

RECALLED
P3N1022995 PAGE 01 OF 01 TOR:097/07144Z DTG:070542Z APR 77

*****CONFIDENTIAL***** COPY

013

*****CONFIDENTIAL***** COPY

OP IMMED
TKI321
DE RUEHKO #5108 0980945
O 080920Z APR 77
FM AMEMBASSY TOKYO

TO SECSTATE WASHOC IMMEDIATE 6822

~~CONFIDENTIAL~~ TOKYO 5108

PASS WHITE HOUSE FOR EISENSTAT AND AMB OWEN
E.O. 11652: GDS
TAGS: ETRD, JA
SUBJECT: STR STRAUSS VISIT TO TOKYO

1. SUMMARY. SPECIAL TRADE REPRESENTATIVE ROBERT STRAUSS MET WITH PRIME MINISTER FUKUDA, MINISTERS OF FOREIGN AFFAIRS AND MITI, AND OTHER SENIOR OFFICIALS OF GOJ IN PREPARATIONS FOR LONDON ECONOMIC CONFERENCE AND RESOLUTION OF SEVERAL TRADE ISSUES.
END SUMMARY.

2. IN RELAXED AND CORDIAL MEETING WITH PRIME MINISTER, EMPHASIS WAS ON NEED TO AVOID RESURGENCE OF PROTECTIONISM SUCH AS FOLLOWED THE FAILURE OF THE LONDON ECONOMIC CONFERENCE OF 1933 IN WHICH PM PARTICIPATED. BOTH SIDES AGREED THAT MAJOR EFFORTS SHOULD BE MADE TO RESIST GROWING TRENDS TOWARDS PROTECTIONISM AND THAT A PRIMARY OBJECTIVE OF BOTH COUNTRIES SHOULD BE TO EXERCISE LEADERSHIP TO REACH SUBSTANTIAL RESULTS IN THE MULTILATERAL TRADE NEGOTIATIONS. PERSONAL GREETINGS WERE EXTENDED FROM PRESIDENT CARTER TO THE PRIME MINISTER AND A PERSONAL MESSAGE WAS GIVEN TO AMBASSADOR STRAUSS TO BE CONVEYED TO PRESIDENT CARTER FROM THE PRIME MINISTER. BOTH SIDES AGREED TO REACH MUTUALLY SATISFACTORY NEGOTIATED SETTLEMENT ON TELEVISIONS THIS MONTH SO THAT THIS QUESTION WOULD BE OUT OF THE WAY BY THE SUMMIT. IT WAS AGREED THAT THE SUMMIT COMMUNIQUE SHOULD HAVE VERY STRONG LANGUAGE AGAINST PROTECTIONISM AND IN FAVOR OF SUBSTANTIVE PROGRESS IN THE MTN AS THIS WOULD BE A SIGNAL OF THE POLICIES OF THE DEVELOPED COUNTRIES.

3. WHILE QUESTIONS RELATING TO OUTSTANDING BILATERAL TRADE ISSUES SUCH AS CHERRIES, AUTO EMISSION STANDARDS, STEEL, THROWN SILK AND CITRUS WERE DISCUSSED WITH SEVERAL OFFICIALS, THE PRINCIPAL DISCUSSIONS DURING THIS VISIT WERE ON THE SUBJECTS OF THE MTN AND THE SUMMIT WITH VICE MINISTER YOSHINO AND ON JAPANESE

***** WWSR COMMENT *****

ZB, AAR, IPO, LL

PSN:024285
RECALLED
PAGE 01

TOR:098/10:12Z

DTG1080920Z APR 77

*****CONFIDENTIAL***** COPY

DECLASSIFIED

Per: Rac Project

ESDN: NLC-126-7-4-1-9

BY: Q NADA DATE 1/16/13

*****CONFIDENTIAL***** COPY

COLOR TELEVISION EXPORTS WITH MITI VICE MINISTER MASUDA.

4. DISCUSSIONS WITH YOSHINO CENTERED ON DRAFT COMMUNIQUE LANGUAGE FOR THE SUMMIT ON TRADE WHICH THE JAPANESE HAD RECEIVED FROM US THE DAY BEFORE. IN GENERAL THE LANGUAGE IN OUR DRAFT PRESENTED THEM LITTLE PROBLEM AND THEY AGREED THAT IT SET THE RIGHT TONE. THEY THOUGHT IT WAS BOTH POSITIVE AND CONSTRUCTIVE BUT WERE CONCERNED THAT ON THE MTN SOME SPECIFICS MIGHT CREATE DIFFICULTIES WITH OTHER MINISTRIES IN THE GOJ. PARTICULARLY, THE EMPHASIS PLACED ON AGRICULTURE AS A PRIORITY NEGOTIATION WOULD, YOSHINO ANTICIPATES, BE SENSITIVE WITH THE MINISTRY OF AGRICULTURE. THEY APPRECIATE THAT OUR EMPHASIS IS ON BREAKING THE AGRICULTURE DEAD-LOCK SO THAT THE MTN CAN MOVE FORWARD AND THAT WE DID NOT INTEND THAT AGRICULTURE MOVE AHEAD OF OTHER ISSUES--IN FACT, WE REITERATED OUR POSITION THAT AGRICULTURE AND OTHER ISSUES SHOULD MOVE AHEAD TOGETHER. THEY ALSO NOTED THAT TOO PRECISE LANGUAGE ON GRAIN RESERVES NEGOTIATIONS WOULD GIVE THE MINISTRY OF AGRICULTURE SOME DIFFICULTY. AT THIS POINT, HOWEVER, THEY ARE IN GENERAL AGREED WITH OUR DRAFT LANGUAGE AND WILL TAKE UP SPECIFIC PROBLEMS THEY MIGHT HAVE IN THE OWEN GROUP AFTER CONSULTATION WITHIN THE GOJ.

5. TWO DAYS OF INTENSIVE DISCUSSIONS ON TELEVISION PROBLEM RESULTED IN OUTLINES OF SEVERAL POSSIBLE APPROACHES TO AN AGREED RESOLUTION. JAPANESE INDICATED PREFERENCE FOR VOLUNTARY RESTRAINT ARRANGEMENT WITH A TWO-YEAR DURATION. NO LEVEL WAS SPECIFIED DUE TO THE ABSENCE OF SENIOR CABINET SECRETARY ON EMERGENCY FISHERIES MISSION TO MOSCOW. MASUDA WAS PERSONALLY DESIGNATED BY PRIME MINISTER TO LEAD JAPANESE SIDE. U.S. SIDE CITED PREFERRED APPROACH OF ORDERLY MARKETING AGREEMENT PURSUANT TRADE ACT STATING THAT OBVIOUS PARAMETERS WERE FIGURES WHICH WERE IN BETWEEN THE U.S. INDUSTRY REQUEST OF 1.3 MILLION SETS AND 2.7 MILLION SETS. IN SIDE CONVERSATIONS IT APPEARED LIKELY THAT AN ACCEPTABLE RESOLUTION OF THE PROBLEM MIGHT BE IN THE RANGE OF 1.8 TO 2.0 MILLION SETS. OTHER DETAILS THAT WERE RAISED BUT NOT DISPOSED OF WHICH DIVISION OF IMPORTS INTO TWO CATEGORIES, 18 INCHES AND ABOVE, AND TVS OF SMALLER DIMENSION, FOUR-YEAR DURATION OF OMA AND RELATIONSHIP OF AGREEMENT TO GATT. GOJ ALSO STRESSED QUESTION OF APPROPRIATE HANDLING OF 337 CASE IN LIGHT OF CONCLUSION OF OMA. U.S. INDICATED THAT THE TWO COULD NOT BE LINKED. ?

6. IT WAS AGREED THAT FURTHER DISCUSSIONS SHOULD TAKE PLACE NEXT WEEK IN WASHINGTON AT THE WORKING LEVEL WITH THE HOPE THAT AN AGREEMENT CAN BE REACHED PRIOR AMBASSADOR STRAUSS' DEPARTURE FOR EUROPE. TALKS WOULD INCLUDE WORK ON DEFINITION OF PRODUCT(S) TO BE COVERED BY AGREEMENT. DISCUSSIONS IN WASHINGTON WOULD INCLUDE EXPLORATION OF ALTERNATIVE FORMATS FOR US/GOJ AGREEMENT ON COLOR TELEVISIONS.

RECALLED
PAGE 02

PSN:024205

TOR:098/10:12Z

DTG:080920Z APR 77

*****CONFIDENTIAL***** COPY

*****CONFIDENTIAL***** COPY

7. PRESS GUIDANCE: BOTH SIDES AGREED THAT IN DISCUSSIONS WITH PRESS THEY WOULD SAY A WIDE RANGE OF POSSIBILITIES FOR SETTLEMENT OF TV ISSUE WERE DISCUSSED, PROGRESS HAD BEEN MADE AND BOTH LOOK FORWARD TO A SUCCESSFUL RESOLUTION OF THIS ISSUE IN THE NEXT FEW WEEKS.

SHOESHITH

BT

PSN1024285

RECALLED
PAGE 03

OF 03

TOR: 098/10:12Z

DTG: 000920Z APR 77

*****CONFIDENTIAL***** COPY